

**Report of the
PUBLIC EMPLOYEE RETIREMENT
ADMINISTRATION COMMISSION
on the Examination of the
Milton
Contributory Retirement System
For the Three-Year Period
January 1, 2000 - December 31, 2002
PERAC 02: 10-062-12**

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April 26, 2004

The Public Employee Retirement Administration Commission has completed an examination of the **Milton** Retirement System pursuant to G.L. c. 32, s. 21. The examination covered the period from January 1, **2000** to December 31, **2002**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in Note 3 of this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Mary Dundas Hayden and Patrick H LePage who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton
Executive Director

Milton Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2002

1. Cash

a. A review of the most recent bank reconciliation revealed three items unpaid for more than six months. These three outstanding items totaled \$1,100.

b. Interest earned in the checking account was not entered into the general ledger on a timely basis. Interest was last recorded in October of 2000. An entry for the \$4,100 cumulative total was posted in December of 2003.

Recommendation:

a. Any uncashed items older than six months should be researched, so that the proper voiding and recording of these items can be completed.

b. The Administrator must follow the standard method of accounting prescribed in 840 CMR 4.02 and record interest income on a monthly basis.

Board Response:

a. Older items have been resolved.

b. The Administrator will comply with this recommendation in the future.

2. Annuity Reserve Interest

a. Errors in calculating Annuity Reserve Fund (ARF) interest and balances in 2000, 2001, and 2002 resulted in a compounded overstatement of the ARF balance of \$1,749.08 at the end of 2002.

Recommendation:

a. The Administrator should make an adjusting entry for \$1,749.08 to the Annuity Reserve and Pension Reserve Funds. The Administrator should also complete monthly calculations for 2003.

Board Response:

a. The correcting entry was posted as of January 1, 2003 and the calculations for 2003 have been completed and reviewed by the PERAC auditor.

3. Appropriations

a. The Town overpaid its FY02, FY03, and FY04 appropriations. The Town was billed for the Housing Authority's portion, although the Housing Authority had already paid that amount.

Recommendation:

a. The overpayments made for FY02 and FY03 have since been accounted for in the System's most recent actuarial valuation (1/1/03). The Board should deduct the Town's FY04 overpayment of \$13,980 from its FY05 appropriation due on November 1, 2004.

Milton Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2002

Board Response:

- a. This item has been corrected and all parties have been notified.

4. Expenses

- a. The Board does not prepare annual budgets.
- b. Some vouchers for reimbursement of travel expenses were missing detailed receipts and the Board member's signature certifying the accuracy of the receipts.

Recommendation:

- a. Pursuant to G.L. c. 32, § 22(5), the Board must annually prepare a budget for submission and approval at a Board meeting prior to expenditures being made.
- b. Board members must submit travel vouchers with detailed receipts, so that charges can be validated. The Milton Retirement Board is required to adhere to PERAC's travel regulations (840 CMR 2.00), which became effective June 6, 2003.

Board Response:

- a. All actuarial valuation reports prepared for the Milton Retirement System have included a figure for total administrative expenses for each year. The Board has considered that amount to be the budgeted figure and has never exceeded that amount in total expenditures. However, in the future the Board will prepare annual expense budgets to be approved at a Board meeting.
- b. One member questions the appropriateness of referencing the requirement of adhering to PERAC's travel regulations which became effective June 6, 2003 as part of an audit covering the period which ended December 31, 2002.

5. Refunds

- a. The Board does not calculate current year interest not refundable when issuing member refunds. Consequently, the amount of interest transferred to the pension reserve fund is incorrect.
- b. Some members' withdrawal applications were incomplete. Primarily, the question of whether a member's termination was voluntary is unanswered. Witness signatures to beneficiary selection were regularly absent from enrollment forms.

Recommendation:

- a. When completing refunds of members' annuity savings funds, the Board must comply with G.L. c. 32, § 22(6)(c) and (d), which direct the calculation of interest on members' accounts.

Milton Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2002

b. Members' withdrawal applications must be completed in their entirety, so that no information is left open to questioning, and accurate refunds can be issued. Beneficiary selections must be witnessed when new members enroll in the System. For greater protection of members, these witnesses should be someone other than the beneficiaries.

Board Response:

a. The Board will comply with this recommendation on all future refunds.

b. This situation was found to be occurring most often on old enrollment forms when the form combined enrollment and beneficiary information on the same form. Since PERAC has designed new forms and provides a separate enrollment and beneficiary selection form, care is taken to see that the beneficiary selection form is properly witnessed by someone other than the named beneficiary.

6. Minutes

a. Although the Board is provided with the System's trial balance on a monthly basis, it appears that the Board is not provided with the monthly cash reconciliation (840 CMR 25.31(6)).

Recommendation:

a. The Board Administrator should provide the monthly cash reconciliation along with the corresponding trial balance. This should be listed in the minutes with the other informational items provided to the Board.

Board Response:

a. This recommendation will be adopted immediately.

Final Determination

PERAC auditors will follow up in six (6) months to ensure that the appropriate actions have been taken regarding the audit findings.

Milton Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2002**

FOR THE PERIOD ENDING DECEMBER 31,				
ASSETS	2002	2001	2000	
Cash	\$18,153.82	\$69,787.68	\$133,181.47	
Short Term Investments				
Fixed Income Securities				
Equities				
Pooled Short Term Funds				
Pooled Domestic Equity Funds				
Pooled International Equity Funds				
Pooled Global Equity Funds				
Pooled Domestic Fixed Income Funds				
Pooled International Fixed Income Funds				
Pooled Global Fixed Income Funds				
Pooled Alternative Investment Funds				
Pooled Real Estate Funds				
Pooled Domestic Balanced Funds				
Pooled International Balanced Funds				
PRIT Cash Fund	\$1,806,007.40	\$1,799,841.45	\$10,745,881.03	
PRIT Core Fund	\$47,208,902.13	\$52,170,782.88	\$46,697,410.12	
Interest Due and Accrued				
Accounts Receivable				
Accounts Payable				
TOTAL	<u>\$49,033,063.35</u>	<u>\$54,040,412.01</u>	<u>\$57,576,472.62</u>	
FUND BALANCES				
Annuity Savings Fund	\$11,077,503.33	\$11,322,451.43	\$10,707,756.19	
Annuity Reserve Fund	\$5,685,597.31	\$4,518,005.75	\$4,448,718.19	
Military Service Fund	\$4,391.38	\$4,330.46	\$4,249.32	
Pension Fund	\$1,445,504.97	\$2,213,444.93	\$1,292,812.78	
Expense Fund	\$0.00	\$0.00	\$0.00	
Pension Reserve Fund	\$30,820,066.36	\$35,982,179.44	\$41,122,936.14	
TOTAL	<u>\$49,033,063.35</u>	<u>\$54,040,412.01</u>	<u>\$57,576,472.62</u>	

Milton Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2002**

	Annuity Savings Fund	Annuity Reserve Fund	Military Service Fund	Pension Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2000)	\$10,004,037	\$4,564,176	\$4,161	\$1,961,557	\$0	\$41,120,946	\$57,654,877
Receipts	1,212,870	\$134,109	88	2,919,459	79,573	1,990	4,348,090
Interfund Transfers	(384,597)	384,597					0
Disbursements	(124,554)	(\$634,164)	<u>0</u>	(3,588,203)	(79,573)	<u>0</u>	(4,426,495)
Ending Balance (2000)	10,707,756	4,448,718	4,249	1,292,813	0	41,122,936	57,576,473
Receipts	1,350,573	140,355	81	2,867,059	276,274	(3,475,642)	1,158,700
Interfund Transfers	(485,317)	441,082		1,709,349		(1,665,115)	0
Disbursements	(250,561)	(512,150)	<u>0</u>	(3,655,776)	(276,274)	<u>0</u>	(4,694,760)
Ending Balance (2001)	11,322,451	4,518,006	4,330	2,213,445	0	35,982,179	54,040,412
Receipts	1,527,590	138,404	61	3,205,714	283,729	(5,170,865)	(15,367)
Interfund Transfers	(1,627,790)	1,619,038				8,752	(0)
Disbursements	(144,749)	(589,851)	<u>0</u>	(3,973,654)	(283,729)	<u>0</u>	(4,991,982)
Ending Balance (2002)	<u>\$11,077,503</u>	<u>\$5,685,597</u>	<u>\$4,391</u>	<u>\$1,445,505</u>	<u>\$0</u>	<u>\$30,820,066</u>	<u>\$49,033,063</u>

Milton Retirement System

STATEMENT OF INCOME

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2002**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2002	2001	2000
Annuity Savings Fund:			
Members Deductions	1,114,598.43	991,855.63	932,860.08
Transfers from other Systems	225,212.15	142,084.59	61,886.22
Member Make Up Payments and Redeposits	38,899.52	18,633.21	12,939.21
Investment Income Credited to Member Accounts	148,880.13	197,999.20	205,184.97
Sub Total	<u>1,527,590.23</u>	<u>1,350,572.63</u>	<u>1,212,870.48</u>
Annuity Reserve Fund:			
Investment Income Credited Annuity Reserve Fund	<u>138,404.41</u>	<u>140,354.57</u>	<u>134,108.79</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	96,214.89	94,070.67	74,183.30
Received from Commonwealth for COLA and Survivor Benefits	424,467.00	160,212.41	311,391.84
Pension Fund Appropriation	<u>2,685,032.00</u>	<u>2,612,776.00</u>	<u>2,533,884.00</u>
Sub Total	<u>3,205,713.89</u>	<u>2,867,059.08</u>	<u>2,919,459.14</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	-	-	-
Investment Income Credited Military Service Fund	<u>60.92</u>	<u>81.14</u>	<u>87.83</u>
Sub Total	<u>60.92</u>	<u>81.14</u>	<u>87.83</u>
Expense Fund:			
Expense Fund Appropriation	-	-	-
Investment Income Credited to Expense Fund	<u>283,728.61</u>	<u>276,273.90</u>	<u>79,573.45</u>
Sub Total	<u>283,728.61</u>	<u>276,273.90</u>	<u>79,573.45</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	3,591.82	2,809.51	2,335.02
Pension Reserve Appropriation	-	-	-
Interest Not Refunded	1,887.06	2,124.61	48.74
Miscellaneous Income	618.90	-	-
Excess Investment Income	<u>(5,176,962.66)</u>	<u>(3,480,575.82)</u>	<u>(393.50)</u>
Sub Total	<u>(5,170,864.88)</u>	<u>(3,475,641.70)</u>	<u>1,990.26</u>
TOTAL RECEIPTS	<u>(15,366.82)</u>	<u>1,158,699.62</u>	<u>4,348,089.95</u>

Milton Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2002**

		FOR THE PERIOD ENDING DECEMBER 31,		
		2002	2001	2000
Annuity Savings Fund:				
Refunds to Members		\$84,388.79	\$78,423.12	\$43,209.31
Transfers to other Systems		\$60,359.91	\$172,137.40	\$81,345.14
	Sub Total	<u>\$144,748.70</u>	<u>\$250,560.52</u>	<u>\$124,554.45</u>
Annuity Reserve Fund:				
Annuities Paid		\$569,003.24	\$512,149.50	\$498,152.45
Option B Refunds		\$20,847.44	\$0.00	\$136,011.07
	Sub Total	<u>\$589,850.68</u>	<u>\$512,149.50</u>	<u>\$634,163.52</u>
Pension Fund:				
Pensions Paid				
Regular Pension Payments		\$2,470,489.14	\$2,259,923.09	\$2,279,603.87
Survivorship Payments		\$308,854.18	\$290,932.73	\$201,370.72
Ordinary Disability Payments		\$37,153.08	\$39,836.22	\$46,968.30
Accidental Disability Payments		\$730,480.34	\$691,399.26	\$704,175.12
Accidental Death Payments		\$240,771.79	\$252,798.96	\$233,897.64
Section 101 Benefits		\$33,972.60	\$39,579.48	\$39,900.96
3 (8) (c) Reimbursements to Other Systems		\$82,764.07	\$81,306.57	\$82,286.73
State Reimbursable COLA's Paid		\$69,168.65	\$0.00	\$0.00
Chapter 389 Beneficiary Increase Paid		\$0.00	\$0.00	\$0.00
	Sub Total	<u>\$3,973,653.85</u>	<u>\$3,655,776.31</u>	<u>\$3,588,203.34</u>
Military Service Fund:				
Return to Municipality for Members Who Withdrew Their Funds		<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
Expense Fund:				
Board Member Stipend		\$0.00	\$0.00	\$0.00
Salaries		\$54,164.30	\$48,513.76	\$60,070.42
Management Fees		\$203,460.92	\$209,937.75	\$0.00
Custodial Fees		\$0.00	\$0.00	\$0.00
Investment Consultant Fees		\$0.00	\$0.00	\$0.00
Legal Expenses		\$14,788.37	\$9,256.62	\$10,062.92
Medical Expenses		\$0.00	\$0.00	\$400.00
Fiduciary Insurance		\$0.00	\$0.00	\$0.00
Service Contracts		\$0.00	\$0.00	\$0.00
Rent Expense		\$0.00	\$0.00	\$0.00
Administrative Expenses		\$6,787.26	\$6,272.52	\$5,767.09
Furniture and Equipment		\$0.00	\$0.00	\$0.00
Travel Expenses		\$4,527.76	\$2,293.25	\$3,273.02
	Sub Total	<u>\$283,728.61</u>	<u>\$276,273.90</u>	<u>\$79,573.45</u>
TOTAL DISBURSEMENTS		<u>\$4,991,981.84</u>	<u>\$4,694,760.23</u>	<u>\$4,426,494.76</u>

Milton Retirement System

INVESTMENT INCOME

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2002**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2002	2001	2000
Investment Income Received From:			
Cash			\$4,279
Short Term Investments			
Fixed Income			
Equities			
Pooled or Mutual Funds			
PRIT Fund	1,654,736.23	1,810,093.77	2,545,102.93
Commission Recapture			
TOTAL INVESTMENT INCOME	<u>1,654,736.23</u>	<u>1,810,093.77</u>	<u>2,549,381.94</u>
Plus:			
Increase in Amortization of Fixed Income Securities			
Realized Gains	72,953.96	364,246.13	4,050,297.31
Unrealized Gains	5,169,256.29	6,783,074.73	
Interest Due and Accrued on Fixed Income Securities - Current Year	0.00	0.00	0.00
Sub Total	<u>5,242,210.25</u>	<u>7,147,320.86</u>	<u>4,050,297.31</u>
Less:			
Decrease in Amortization of Fixed Income Securities			
Paid Accrued Interest on Fixed Income Securities			
Realized Loss	(1,558,696.86)	(646,636.66)	0.00
Unrealized Loss	(9,944,138.21)	(11,176,644.98)	(6,180,956.73)
Custodial Fees Paid	0.00	0.00	0.00
Consultant Fees Paid	0.00	0.00	0.00
Management Fees Paid	0.00	0.00	0.00
Board Member Stipend	0.00	0.00	0.00
Interest Due and Accrued on Fixed Income Securities - Prior Year			
Sub Total	<u>(11,502,835.07)</u>	<u>(11,823,281.64)</u>	<u>(6,180,956.73)</u>
NET INVESTMENT INCOME	<u>(4,605,888.59)</u>	<u>(2,865,867.01)</u>	<u>418,722.52</u>
Income Required:			
Annuity Savings Fund	148,880.13	197,999.20	205,184.97
Annuity Reserve Fund	138,404.41	140,354.57	134,269.77
Military Service Fund	60.92	81.14	87.83
Expense Fund	283,728.61	276,273.90	79,573.45
TOTAL INCOME REQUIRED	<u>571,074.07</u>	<u>614,708.81</u>	<u>419,116.02</u>
Net Investment Income	<u>(4,605,888.59)</u>	<u>(2,865,867.01)</u>	<u>418,722.52</u>
Less: Total Income Required	<u>571,074.07</u>	<u>614,708.81</u>	<u>419,116.02</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>(5,176,962.66)</u>	<u>(3,480,575.82)</u>	<u>(393.50)</u>

Milton Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2002

	BOOK VALUE*	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash		\$18,154	0.04%	100
Short Term		\$0	0.00%	100
Fixed Income		\$0	0.00%	40 - 80
Equities		\$0	0.00%	
Pooled Short Term Funds		\$0	0.00%	
Pooled Domestic Equity Funds		\$0	0.00%	
Pooled International Equity Funds		\$0	0.00%	
Pooled Global Equity Funds		\$0	0.00%	
Pooled Domestic Fixed Income Funds		\$0	0.00%	
Pooled International Fixed Income Funds		\$0	0.00%	
Pooled Global Fixed Income Funds		\$0	0.00%	
Pooled Alternative Investment Funds		\$0	0.00%	
Pooled Real Estate Funds		\$0	0.00%	
Pooled Domestic Balanced Funds		\$0	0.00%	
Pooled International Balanced Funds		\$0	0.00%	
PRIT Cash Fund		\$1,806,007	3.68%	
PRIT Core Fund		\$47,208,902	96.28%	100
GRAND TOTALS	<u>\$0</u>	<u>\$49,033,063</u>	<u>100.00%</u>	

* The book value differs from the market value for individually owned Fixed Income Securities which are valued at amortized cost which is the original cost of the investment plus or minus any bond discount or bond premium calculated ratably to maturity. All other investments are reflected at their quoted market value.

For the year ending December 31, **2002**, the rate of return for the investments of the **Milton** Retirement System was -8.69%. For the five-year period ending December 31, **2002**, the rate of return for the investments of the **Milton** Retirement System averaged 4.06%. For the eighteen-year period ending December 31, **2002**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Milton** Retirement System was 10.08%.

Milton Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2002

The **Milton** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

The **Milton** Retirement System has no supplemental investment regulations.

Milton Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all **Milton** Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Milton Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2002

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Milton Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2002

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Milton** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

September 25, 1989

Effective July 1, 1987, all employees who are considered Permanent Part-Time employees of the town, and work at least 25 hours per week or more, are required to join the Retirement System. Any employee who works less than 25 hours per week, whether they are permanent Full-Time or Part-Time are ineligible to join the System.

Any employee enrolled in the system as of July 1, 1989, who does not work at least 25 hours per week, will be allowed to continue in the system and will receive all the benefits established by law. An exception to this regulation is that any elected Town official, who receives a salary for his/her services, may join the retirement system

Milton Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 3 -SUPPLEMENTARY MEMBERSHIP REGULATIONS - (Cont'd.)

November 3, 1989

Any Full-Time provisional employee must join the Milton Contributory Retirement System after working 6 months in the same position.

March 23, 1990

Any part-time permanent, temporary, provisional, seasonal or intermittent employee receiving weekly or monthly salaries or wages for prescribed periods of employment be given creditable service based on actual service rendered.

Example day = 7.5 hours, week = 37.5 hours.

February 8, 1991

All written decisions received from the division of Administrative Law Appeals be reviewed immediately upon receipt in order to take further action that may be appropriate. The board voted to accept the new provisions amending G.L. c. 32 § 16(4). The effective date of the bill is March 18, 1991. This chapter 331 of the acts of 1990 was signed by the Governor on December 18, 1990. Town Counsel will be advised of the new provisions G.L. c. 32 § 16(4) so that orders which are directed to the attorney will be transmitted to the Board for review.

May 20, 1991

“Effective July 1, 1991 an employee may not make up any service that has been covered by Social Security.”

October 30, 1991

“Effective July 1, 1991, any employee eligible for membership in the Milton Contributory Retirement System, may not buy-back or make-up previous service for any period of time after July 1, 1991 during which his/her wages were subject to tax under the Federal Insurance Contribution Act (FICA)”

September 10, 1996

Any employee of Milton School Department who is not a certified teacher and therefore eligible to apply for membership in the Milton Retirement System will be given credit for a full year of creditable service if they are employed full-time for the job they perform if the job only occurs during the school year. Full-time employment in the school system would be the maximum number of hours that are assigned to the job function so long as the number equals 25 hours per week. Full-time service will be credited only if the member retires from said position.

April 19, 2000

Effective July 1, 1991, any employee eligible for membership in the Milton Retirement System, may not buy back or make up previous service for any period of time after July 1, 1991 during which his/her wages were subject to tax under the Federal Insurance Contribution Act (FICA).

Milton Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the Town Accountant who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: David S. Grab

Appointed Member: John H. Bowie, Jr. Term Expires: Indefinite

Elected Member: Joseph G. Graziani, Jr. Term Expires: 06/30/2005

Elected Member: Robert J. Byron Term Expires: 06/30/2004

Appointed Member: Richard J. Madigan Term Expires: 04/30/06

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	\$30,000,000 Liability
Ex officio Member:)	Travelers (\$10M Primary)
Elected Member:)	Federal Insurance Co. (Chubb Group)
		(\$10M Excess of Primary)
Appointed Member:)	Executive Risk Indemnity, Inc.
		(\$10M Excess of \$20M)
Staff Employee:)	\$1M Employee Dishonesty

Milton Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by **PERAC** as of **January 1, 2003**.

The actuarial liability for active members was	\$32,575,292
The actuarial liability for retired and inactive members was	<u>43,470,552</u>
The total actuarial liability was	76,045,844
Actuarial value of assets were (Market value was \$49.03m)	<u>56,388,022</u>
The unfunded actuarial liability was	<u>\$19,657,822</u>
 The ratio of system's assets to total actuarial liability was	 74.2%
As of that date the total covered employee payroll was	\$13,420,717

The normal cost for employees on that date was 7.92% of payroll

The normal cost for the employer was 8.13% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.25% per annum

Rate of Salary Increase: Varies by service

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2003

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) * (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2003	\$ 56,388,022	\$ 76,045,844	\$ 19,657,822	74.2%	\$13,420,717	146.47%
1/1/1999	\$ 47,789,813	\$ 60,376,431	\$ 12,586,618	79.2%	\$12,059,336	104.37%
1/1/1998	\$ 41,519,475	\$ 56,623,392	** \$ 15,103,917	73.3%	\$11,085,009	136.26%
* excludes State reimbursed COLA						
** estimated						

Milton Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Superannuation	7	11	14	11	7	11	13	8	9	18
Ordinary Disability	0	0	2	0	0	2	1	0	0	0
Accidental Disability	2	0	0	1	1	3	1	0	1	3
Total Retirements	9	11	16	12	8	16	15	8	10	21
 Total Retirees, Beneficiaries and Survivors	 293	 288	 289	 292	 288	 296	 299	 294	 294	 301
 Total Active Members	 292	 288	 291	 287	 300	 321	 328	 339	 323	 328
 Pension Payments										
Superannuation	\$1,661,521	\$1,809,524	\$1,851,781	\$1,912,544	\$2,026,541	\$2,029,290	\$2,189,523	\$2,279,604	\$2,259,923	\$2,470,489
Survivor/Beneficiary Payments	166,894	166,395	147,625	151,954	170,726	196,294	188,914	201,371	290,933	308,854
Ordinary Disability	27,070	27,475	27,880	28,015	16,132	30,256	41,149	46,968	39,836	37,153
Accidental Disability	421,450	473,819	562,372	513,454	558,237	630,077	681,037	704,175	691,399	730,480
Other	<u>278,084</u>	<u>267,770</u>	<u>315,763</u>	<u>359,197</u>	<u>336,104</u>	<u>321,408</u>	<u>319,759</u>	<u>356,085</u>	<u>373,685</u>	<u>426,677</u>
Total Payments for Year	<u>\$2,555,019</u>	<u>\$2,744,983</u>	<u>\$2,905,421</u>	<u>\$2,965,164</u>	<u>\$3,107,739</u>	<u>\$3,207,325</u>	<u>\$3,420,382</u>	<u>\$3,588,203</u>	<u>\$3,655,776</u>	<u>\$3,973,654</u>